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1 September 1955

**MEMORANDUM FOR:** Acting Deputy Director (Support)**SUBJECT:** Administrative Overhead Costs of GSIA**REFERENCES:**

- (A) Memorandum for Deputy Director (Support) from General Counsel, Subject: Purchase of Office Machines for Use by GSIA, dated 20 April 1955.
- (B) Memorandum for Deputy Director (Support) from Chief, Management Staff, Subject: Costs of Administering the Agency Insurance Program and the Casualty Affairs Activities.
- (C) Memorandum for Acting Deputy Director from Chairman of the Board, GSIA, Subject: "Your Question: What Administration Costs Are Absorbed by Other Government Agencies in Connection with Insurance and Hospitalization Plans?", dated 22 August 1955.

1. In Reference A this Office expressed the opinion that, to the extent that a portion of the total administrative overhead costs of GSIA are normal to any similar organization, such costs should be borne by the membership. The opinion recognized that the total overhead costs of operating GSIA are increased by the security demands of the Agency and that such abnormal expenses should be borne by the Agency. It suggested that a study be undertaken to determine the normal administrative expenses of similar organizations where security considerations were not involved and as a result of this study, that the total overhead costs of GSIA be apportioned between the membership and the Agency.

2. In reply to our memorandum, Reference B recommended that on the basis of the information set forth therein, "the Agency continue to provide the necessary administrative support to its insurance program and its casualty affairs . . . . Therefore, this memorandum was not formally answered by this Office, but in order to clarify our original opinion and to establish the problem involved in what we believe to be its proper perspective, we should like at this time to set forth the following points:

(a) Reference B deals with justifying Agency sponsorship of both the Insurance Branch and the Casualty Affairs Branch of the Employees Services Division. This Office certainly has no objection to the Agency bearing the full overhead expenses for the Casualty Affairs Branch. We hope that there is nothing in our original opinion which led to a contrary conclusion.

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(b) Paragraph 4 of Reference 2 could be misconstrued regarding the basis for our original opinion, possibly because a statement in that opinion is quoted out of context and the citation deletes a clause constituting the major emphasis of the sentence itself. Paragraph 4 says:

It is believed that the costs of administering the insurance and casualty affairs program is an Agency responsibility in its entirety. The statement of the General Counsel, paragraph 4 of referenced memorandum, that "However, . . . such costs should be borne by the membership" is a conclusion which merits reconsid-  
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(c) Paragraph 4(b) of Reference 2 makes the argument, and subsequently expands on it, that one of the reasons the Agency should bear the complete overhead costs of the Insurance Program is that the program provides an incentive in the recruitment of personnel and serves as a morale factor in strengthening the appeal of the long term career service concept. This Office agrees that it does both. A good insurance program may well increase the morale of the employees of any department of Government. Congress has recognized this by the recent enactment of a group life insurance program and has for its consideration a group health insurance program. However, the Federal Employees Group Life Insurance Act of 1957 contains specific authority for the Government to assume the overhead administrative costs of the program, and the group health insurance bill contains similar authorization. To illustrate our position, it is clear that if GEBA, a private corporation, could obtain agreements with underwriters to provide car insurance, real and personal property insurance, general liability insurance, etc., at preferential rates (which it might well be able to do, such action would strengthen employee morale. Morale might be further improved if GEBA undertook to provide an Agency employee club with the overhead costs borne by the Agency. However, we think that all will agree that the Agency should not use its special authorities to pay the overhead costs of an employee organization performing those activities. Similarly, we do not believe that the Agency's special authorities should be used to pay those overhead costs of GEBA which are normal to any similar organization not confronted with the special security demands of this Agency. On the other hand, we believe the Agency may, and properly should, pay those increased costs occasioned by the special security demands.

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3. It appears to this Office that part of the confusion surrounding this issue results from a failure to distinguish between the functions of the Insurance Branch and the functions of GSEA. To analyze and break down these separate functions so that a fair apportionment of the total costs could be made between the Agency and the membership is a task which would require some time, and which we have suggested should be done by an impartial committee. The Insurance Branch administers WACPA, for example, mainly for reasons of security, and in administering GHI in a centralized manner, is performing a function similarly affected elsewhere in Government on a decentralized basis. In addition, a portion of the cost of administering other programs under the Insurance Branch may appropriately be borne by the Agency because the claims against these programs must be processed internally rather than by the underwriter.

4. Reference C states that a check has been made with various departments, including the Foreign Service, and that their insurance programs are conducted by employee collectors who enroll members and collect premiums. The claims are stated to be processed directly with the insurance association or office. The association concludes that:

The essential difference between what we do and what others do arises out of security considerations. Such considerations are required and imposed on employees by the Agency. Clearly, the employee should not be penalized for that.

5. This Office has not undertaken a comprehensive survey of the practices of other Government agencies. However, we have checked on the practice of the Foreign Service, an organization which we consider for many other purposes to be similar to ours. The Foreign Service officers and employees have formed an organization called the Foreign Service Protective Association which, like GSEA, is a District of Columbia non-profit corporation. This Association is physically quartered in a building at 1909 G Street, N.W., which also houses the American Foreign Service Club. The Association has been in existence since 1969 and owns the building which it occupies. It has a Board of Directors composed of Foreign Service officers, a membership of over 1,400, two full-time and one part-time employees. In addition Mr. Allen Nathan of the Equitable Life Assurance Society acts as an insurance advisor to the Association and is paid a nominal fee. The Foreign Service Protective Association provides its members with a comprehensive life and health insurance program. The group life insurance program is underwritten by the Equitable Life Assurance Society, the hospital and surgical expense program by the Mutual Benefit Health & Accident Association of Canada, and the accidental death and dismemberment insurance by the Indemnity Insurance Company of North America. Absolutely none of the overhead expenses of the Association are borne by the United States Government. The

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